Revenue Committee

Meeting Summary

February 8, 2000

Adopted (3/21/2000)

Committee members present: Acting Chair Bob Helsell, Roger Dormaier, Councilmember Dave Earling, Jim Fitzgerald, Governor Booth Gardner, Neil Peterson, Commissioner Judy Wilson

Committee members not present: Representative Ed Murray, Larry Pursley, Chair Skip Rowley, Senator George Sellar, Doug Vaughn

The Revenue Committee convened at 8:35 am at the SeaTac Holiday Inn. Acting Chair Bob Helsell asked for a motion to adopt the January 12 meeting summary. A motion was made and seconded and the meeting summary was approved.

No members of the public wished to address the committee during the public comment period.

Presentation of Transportation Fund Distribution Post-695

Ben Porter, consultant to the Puget Sound Regional Council, provided his analysis of the Puget Sound region's Metropolitan Transportation Plan (MTP) financial outlook to 2020. He said that the shortfall increases from $16 billion to $25 billion, primarily because of state policy priorities that say maintenance and preservation should be funded first. Initiative 695 eliminated $6.8 billion in MVET transportation revenue that the region would have received. The reduction represents a 16 % loss to public transit, a 42% loss to ferries and a 22% loss to highways. The impact on city streets and county roads is unknown at this time.

The region's rate of return is reduced in two ways: reductions in ferry funding and in highway congestion relief. As a result, the region's return on dollars generated over 20 years is reduced from 91 cents to 50 cents, if no new revenues are assumed. Historically, there has been an outflow of funds for highways, an inflow of funds for ferries and transit has been about even. The need to fund highway maintenance and preservation statewide eats into the state's ability to fund mobility projects. If the MTP is underfunded by a large amount and air quality is threatened, this could jeopardize the region's ability to receive federal funding. This also affects other metropolitan areas such as Spokane and Vancouver. The question was asked at what point in time during the 20 years do the drops become noticeable. Ben said the analysis was cumulative and did not show year-by-year changes. A committee member suggested that the Administration and Investment Committees also be made aware of the findings of the analysis.

Presentation of *Road Relief*

John Palmer of the Environmental Protection Agency (EPA) and Doug Howell of the Environment and Energy Policy Center, presented the findings of the EPA study, *Road Relief*, on road pricing options. John Palmer summarized the main theme of the study which was that changing the transportation funding system from the current one to a user fee-based system would reduce the incentives to drive. The study recommended a new sales tax on gasoline and a new mileage charge as well as a new mileage-based form of insurance. The study found that this mix of taxes would reduce vehicle miles traveled by 20%, thus reducing congestion, sprawl and air pollution.

The analysis estimated that removing the sales tax exemption on gasoline would generate about $300 million per year and introducing a VMT charge would generate $1.4 billion per year. The proposal could be held revenue neutral by eliminating the current property and sales taxes used by local government for transportation. The annual costs of operating an automobile include ownership 65%, insurance 14%, operations 9%, parking 6% and taxes 6%. By changing the way insurance is paid to a VMT-based approach, a strong incentive to reduce driving would be provided. The implementation of the new approach would be based on annual odometer checks that could be carried out at gas stations. These would certify the miles driven and check for odometer tampering. The estimated cost of the odometer checks was $5 per vehicle per year.

Doug Howell said that these proposals might be perceived as a radical change, but the actual difference in costs would not be great. It was not a tax increase, but rather a shift in the way taxes and insurance are paid. He estimated the new approach would represent a reduction of about $85 per car annually. The current system causes low-mileage drivers (low income and elderly people) to subsidize high-mileage drivers. He proposed that a voluntary adoption of the new insurance system by individuals who could save money as a result would be a way to pilot test the system.

A committee member noted that the proposed approach would pass higher costs on to businesses and the trucking industry which do not have the ability to reduce their VMT. Also rural drivers have to driver longer distances so would be disadvantaged by the approach. It was noted that an alternative would be to offer the approach only to certain classes of vehicles and certain geographic areas. In response to a question about whether other states have tried a similar approach, the answer was that the Automobile Association of America was pilot testing it in California and Pennsylvania.

A committee member asked staff to bring back additional research and options on both the user fees proposed and ways to address the regional equity issue.

Discussion of Revenue Options

Kathy Elias, committee staff, introduced the handout titled Draft Fund Consolidation and Streamlining Options. She reminded members that before considering any new revenue options, the committee had agreed to examine the current funding structure and potential ways to restructure it and distribute existing revenues in ways that met the goals of streamlining, focus on regional solutions, improved predictability and greater public understanding. The four draft options were a first set of specific proposals for discussion. They had been developed with the input of the state, cities and counties.

Option 1 proposed that federal dollars be pooled and prioritized at the regional level. This would meet the objective of shifting focus to corridor solutions and fewer, larger projects. Federal funds would no longer flow to smaller jurisdictions or be used for ordinary preservation projects; to offset potential loss of federal funds, local governments would receive direct pass-through distributions under Option 2. Discussion of the option included the following comments:

- it would be important to ensure basic connectivity of state routes that cross regional boundaries;
- it is always difficult to achieve agreement on regional priorities, that is why funds tend to get parceled out into smaller allocations;
- the proposal begs the question of the allocation of funds to each region;
- allocation to regions could be addressed by focusing the federal funds on improvement projects, with other sources used for basic maintenance and preservation;
- some local agencies receive earmarked federal funds from Congress and would need to be able to receive and administer them.

Option 2 proposed to convert some competitive grant programs into pass-through distributions for maintenance and preservation by cities and counties. The Small City Account and the Urban Arterial Trust Account were examples of grant programs that could be tapped. Jurisdictions would be guaranteed a predictable level of funding for basic functions based on roadway miles or other factors. Other local funds would be freed up for improvement purposes. Comments included the following:

- this would be a good approach once all roadway miles were up to par; until that level was reached, there would need to be a one-time infusion of funds to bring all roadways up to a minimal level;
- there would need to be an oversight board to set agreed-upon standards, much like CRAB does for counties;
- the current Small City Account and UATA grant programs receive many more applications than there is funding for; after reducing these programs, there would be insufficient funds to meet all needs;
- there is an institutional problem created by the Growth Management Act, namely that as more cities incorporate, a fixed pot of money gets divided into smaller and smaller parts; a better approach would be to look at all funds first, then divide them into distributions based on mileage or other factors;
- it might be a good idea to look at keeping existing dollars in each county.

Option 3 proposed to introduce a new, consolidated hybrid entity that could perform the functions of TIB in administering grant programs and WSDOT's Local Programs in providing technical assistance such as pavement management systems. The new entity should have its own governing board to continue the ability to have constituency representation, but should also have strong technical and administrative capabilities. The following comments were offered:

- if the TIB were located within WSDOT, the model would be similar to the old UATA Board which received administrative services from WSDOT; the CRAB and Freight Mobility Boards would need to be included to provided true consolidation;
- such an entity could be a new one-stop shopping service for all local government assistance;
- the current TIB programs are considered to have great flexibility and to be highly effective; these characteristics would need to be preserved.

Option 4 proposed a distribution formula for the newly converted pass-through funds discussed in Option 2. Cities under 5,000 in population would receive \$3,333 per mile per year (equivalent to the cost of a 2" asphalt overlay once every 15 years); this would total about \$7.5 million per year, or about the amount currently provided annually to the Small City program. Cities over 5,000and counties would receive \$5,000 per mile per year, (equivalent to the cost of a 2" asphalt overlay once every 10 years), but only for arterials; this would total about \$8.7 million for cities and about \$8 million for counties out of the UATA program. The proposed conversion could thus be funded out of the conversion of existing programs. It would be more desirable, however, to back-fill the redirected funds with new money to ensure that the grant programs could continue to meet the needs they are currently serving. A comment of offered:

- an RJC-type study might be needed to determine actual distribution of funds.

The Committee adjourned at 11:45 a.m.